INGRAM MICRO INC
Form 10-Q
November 05, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 27, 2008

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number: 1-12203

Ingram Micro Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**62-1644402**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1600 E. St. Andrew Place, Santa Ana, California 92705-4931

(Address, including zip code, of principal executive offices)

(714) 566-1000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer þ	Accelerated Filer o	Non-Accelerated Filer o	Smaller Reporting Company o
		(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The Registrant had 164,845,956 shares of Class A Common Stock, par value $0.01 per share, outstanding at September 27, 2008.

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Part I. Financial Information

Item 1. Financial Statements

INGRAM MICRO INC.
CONSOLIDATED BALANCE SHEET
(Dollars in 000s, except per share data)
(Unaudited)

	September 27, 2008	December 29, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 807,238	$ 579,626
Trade accounts receivable (less allowances of $80,572 and $83,155)	3,290,346	4,054,824
Inventories	2,531,545	2,766,148
Other current assets	434,616	520,069
Total current assets	7,063,745	7,920,667
Property and equipment, net	184,138	181,416
Goodwill	744,824	733,481
Other assets	127,745	139,437
Total assets	$ 8,120,452	$ 8,975,001
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 3,693,305	$ 4,349,700
Accrued expenses	479,581	602,295
Current maturities of long-term debt	98,199	135,616
Total current liabilities	4,271,085	5,087,611
Long-term debt, less current maturities	359,400	387,500
Other liabilities	68,680	72,948
Total liabilities	4,699,165	5,548,059
Commitments and contingencies (Note 12)		
Stockholders equity:		
Preferred Stock, $0.01 par value, 25,000,000 shares authorized; no shares issued and outstanding		
Class A Common Stock, $0.01 par value, 500,000,000 shares authorized; 176,203,747 and 174,243,838 shares issued and 164,845,956 and 172,942,347 shares outstanding in 2008 and 2007, respectively	1,762	1,742
Class B Common Stock, $0.01 par value, 135,000,000 shares authorized; no shares issued and outstanding		

Additional paid-in capital	1,150,173	1,114,031
Treasury stock, 11,357,791 and 1,301,491 shares in 2008 and 2007, respectively	(194,184)	(25,061)
Retained earnings	2,244,842	2,075,478
Accumulated other comprehensive income	218,694	260,752
Total stockholders equity	3,421,287	3,426,942
Total liabilities and stockholders equity	$ 8,120,452	$ 8,975,001

See accompanying notes to these consolidated financial statements.

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INGRAM MICRO INC.
CONSOLIDATED STATEMENT OF INCOME
(Dollars in 000s, except per share data)
(Unaudited)

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Net sales	$ 8,283,703	$ 8,607,877	$ 25,677,635	$ 25,039,652
Cost of sales	7,830,847	8,132,940	24,251,850	23,713,128
Gross profit	452,856	474,937	1,425,785	1,326,524
Operating expenses:				
Selling, general and administrative	376,784	364,136	1,150,585	1,057,232
Reorganization costs (credits)	3,614	(176)	10,227	(1,091)
	380,398	363,960	1,160,812	1,056,141
Income from operations	72,458	110,977	264,973	270,383
Other expense (income):				
Interest income	(5,949)	(6,908)	(13,680)	(15,328)
Interest expense	15,647	18,120	48,889	52,982
Net foreign currency exchange loss (gain)	1,673	75	(2,130)	179
Other	797	1,174	2,567	5,170
	12,168	12,461	35,646	43,003
Income before income taxes	60,290	98,516	229,327	227,380
Provision for income taxes	13,916	26,106	59,963	65,590
Net income	$ 46,374	$ 72,410	$ 169,364	$ 161,790
Basic earnings per share	$ 0.28	$ 0.42	$ 1.01	$ 0.95
Diluted earnings per share	$ 0.27	$ 0.41	$ 0.99	$ 0.92

See accompanying notes to these consolidated financial statements.

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INGRAM MICRO INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(Dollars in 000s)
(Unaudited)

	Thirty-nine Weeks Ended	
	September 27, 2008	September 29, 2007
Cash flows from operating activities:		
Net income	$ 169,364	$ 161,790
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	52,339	46,762
Stock-based compensation	15,529	28,312
Excess tax benefit from stock-based compensation	(1,378)	(3,459)
Noncash charges for interest and other compensation	260	321
Deferred income taxes	13,318	(32,010)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Changes in amounts sold under accounts receivable programs		(68,505)
Trade accounts receivable	763,896	(205,186)
Inventories	234,695	62,421
Other current assets	39,571	(64,722)
Accounts payable	(642,445)	131,878
Change in book overdrafts	(13,812)	(288)
Accrued expenses	(137,293)	182,188
Cash provided by operating activities	494,044	239,502
Cash flows from investing activities:		
Purchases of property and equipment	(44,392)	(34,527)
Increase in marketable securities	(1,895)	
Collection of collateral deposits on financing arrangements	35,000	
Acquisitions, net of cash acquired	(4,249)	(127,078)
Cash used by investing activities	(15,536)	(161,605)
Cash flows from financing activities:		
Proceeds from exercise of stock options	23,028	41,715
Repurchase of Class A Common Stock	(169,123)	
Excess tax benefit from stock-based compensation	1,378	3,459
Proceeds from senior term loan	250,000	
Net proceeds (repayments) of debt	(315,868)	104,063
Cash provided (used) by financing activities	(210,585)	149,237
Effect of exchange rate changes on cash and cash equivalents	(40,311)	19,306

Increase in cash and cash equivalents	227,612	246,440
Cash and cash equivalents, beginning of period	579,626	333,339
Cash and cash equivalents, end of period	$ 807,238	$ 579,779

See accompanying notes to these consolidated financial statements.

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INGRAM MICRO INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in 000s, except per share data)
(Unaudited)

Note 1 Organization and Basis of Presentation

Ingram Micro Inc. (Ingram Micro) and its subsidiaries are primarily engaged in the distribution of information technology (IT) products and supply chain solutions worldwide. Ingram Micro operates in North America, Europe, Middle East and Africa (EMEA), Asia-Pacific and Latin America.

The consolidated financial statements include the accounts of Ingram Micro and its subsidiaries (collectively referred to herein as the Company). These consolidated financial statements have been prepared by the Company, without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission (the SEC). In the opinion of management, the accompanying unaudited consolidated financial statements contain all material adjustments (consisting of only normal, recurring adjustments) necessary to fairly state the consolidated financial position of the Company as of September 27, 2008, and its consolidated results of operations for the thirteen and thirty-nine weeks ended September 27, 2008 and September 29, 2007, and consolidated cash flows for the thirty-nine weeks ended September 27, 2008 and September 29, 2007. All significant intercompany accounts and transactions have been eliminated in consolidation. As permitted under the applicable rules and regulations of the SEC, these consolidated financial statements do not include all disclosures and footnotes normally included with annual consolidated financial statements and, accordingly, should be read in conjunction with the consolidated financial statements and the notes thereto, included in the Company s Annual Report on Form 10-K filed with the SEC for the year ended December 29, 2007. The consolidated results of operations for the thirteen and thirty-nine weeks ended September 27, 2008 may not be indicative of the consolidated results of operations that can be expected for the full year.

Reclassification of Book Overdrafts

Book overdrafts of $312,215 and $326,027 as of September 27, 2008 and December 29, 2007, respectively, represent checks issued that had not been presented for payment to the banks and are classified as accounts payable in the Company s consolidated balance sheet. The Company typically funds these overdrafts through normal collections of funds or transfers from bank balances at other financial institutions. Under the terms of the Company s facilities with its banks, the respective financial institutions are not legally obligated to honor the book overdraft balances as of September 27, 2008 and December 29, 2007, or any balance on any given date.

For the thirty-nine weeks ended September 27, 2008, the Company revised the presentation of changes in book overdrafts from a financing activity to an operating activity in its consolidated statement of cash flows with a conforming change to the prior period presentation. The effect of this change decreased the cash provided by operating activities for the thirty-nine weeks ended September 29, 2007 from $239,790 as previously disclosed in the prior year Quarterly Report on Form 10-Q to $239,502 with a corresponding increase in the cash flows provided by financing activities for the thirty-nine weeks ended September 29, 2007 from $148,949 to $149,237.

Note 2 Share Repurchases

In November 2007, the Company s Board of Directors authorized a share repurchase program, through which the Company may purchase up to $300,000 of its outstanding shares of common stock, over a three-year period. Under the program, the Company may repurchase shares in the open market and through privately negotiated transactions. The repurchases will be funded with available borrowing capacity and cash. The timing and amount of specific repurchase transactions will depend upon market conditions, corporate considerations and applicable legal and regulatory requirements.

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INGRAM MICRO INC.
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(Dollars in 000s, except per share data)
(Unaudited)

The Company accounts for repurchased shares of common stock as treasury stock. Treasury shares are recorded at cost and are included as a component of stockholders equity in the Company s consolidated balance sheet. The stock repurchase activity during the thirty-nine weeks ended September 27, 2008 is summarized as follows:

	Shares Repurchased	Weighted Average Price Per Share	Amount Repurchased
Cumulative balance at December 29, 2007	1,301,491	$ 19.26	$ 25,061
Repurchased shares of common stock	10,056,300	16.82	169,123
Cumulative balance at September 27, 2008	11,357,791	17.10	$ 194,184

Note 3 Earnings Per Share

The Company reports a dual presentation of Basic Earnings per Share (Basic EPS) and Diluted Earnings per Share (Diluted EPS). Basic EPS excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding during the reported period. Diluted EPS uses the treasury stock method or the if-converted method, where applicable, to compute the potential dilution that would occur if stock-based awards and other commitments to issue common stock were exercised.

The computation of Basic EPS and Diluted EPS is as follows:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Net income	$ 46,374	$ 72,410	$ 169,364	$ 161,790
Weighted average shares	165,408,159	172,302,115	167,798,623	171,116,206
Basic EPS	$ 0.28	$ 0.42	$ 1.01	$ 0.95
Weighted average shares, including the dilutive effect of stock-based awards (3,931,922 and 5,231,506 for the thirteen weeks ended September 27, 2008 and September 29, 2007, respectively, and 3,463,357 and 5,357,214 for the thirty-nine weeks ended September 27, 2008 and September 29, 2007, respectively)	169,340,081	177,533,621	171,261,980	176,473,420

Diluted EPS	$	0.27	$	0.41	$	0.99	$	0.92

There were approximately 3,553,000 and 1,425,000 stock-based awards for the thirteen weeks ended September 27, 2008 and September 29, 2007, respectively, and 6,292,000 and 1,419,000 stock-based awards for the thirty-nine weeks ended September 27, 2008 and September 29, 2007, respectively, that were not included in the computation of Diluted EPS because the exercise price was greater than the average market price of the Class A Common Stock during the respective periods, thereby resulting in an antidilutive effect.

INGRAM MICRO INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in 000s, except per share data)
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Note 4 Stock-Based Compensation

The Company has a single equity incentive plan approved by its shareholders, the Ingram Micro Inc. 2003 Amended and Restated Equity Incentive Plan, for the granting of stock-based incentive awards including incentive stock options, non-qualified stock options, restricted stock, restricted stock units and stock appreciation rights, among others, to key employees and members of the Company s Board of Directors. Options granted generally vest over a period of three years and have expiration dates not longer than 10 years from the dates of grant. A portion of the restricted stock and restricted stock units vests over a time period of one to three years. The remainder of the restricted stock and restricted stock units vest upon achievement of certain performance measures based on earnings growth and return on invested capital over a three-year period. Stock options granted during the thirteen weeks ended September 27, 2008 and September 29, 2007 were 16,000 and 65,000, respectively, and restricted stock and restricted stock units granted were 36,000 and 89,000, respectively. Stock options granted during the thirty-nine weeks ended September 27, 2008 and September 29, 2007 were 1,334,000 and 1,321,000, respectively, and restricted stock and restricted stock units granted were 1,737,000 and 1,618,000, respectively. As of September 27, 2008, approximately 12,598,000 shares were available for future grant. Stock-based compensation expense for the thirteen weeks ended September 27, 2008 was $331 with an associated net income tax expense during the quarter of $117, while the stock-based compensation expense for the thirteen weeks ended September 29, 2007 was $8,415 and the related income tax benefit was $2,200. Stock-based compensation expense for the thirty-nine weeks ended September 27, 2008 and September 29, 2007 was $15,529 and $28,312, respectively, and the related income tax benefit was $4,030 and $7,300, respectively. The decrease in the stock-based compensation expense for the thirteen and thirty-nine weeks ended September 27, 2008 compared to the thirteen and thirty-nine weeks ended September 29, 2007 was the result of lower estimated achievement and payout under the Company s long-term incentive compensation plans which are payable in performance-based restricted stock units.

During the thirteen weeks ended September 27, 2008 and September 29, 2007, a total of 925,000 and 572,000 stock options, respectively, were exercised, and 18,000 and 8,000 restricted stock and restricted stock units vested, respectively. During the thirty-nine weeks ended September 27, 2008 and September 29, 2007, a total of 1,570,000 and 2,935,000 stock options, respectively, were exercised, and 514,000 and 187,000 restricted stock and restricted stock units vested, respectively.

Note 5 Comprehensive Income (Loss)

Comprehensive income (loss) consists of the following:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Net income	$ 46,374	$ 72,410	$ 169,364	$ 161,790
Changes in other comprehensive income (loss)	(119,156)	63,233	(42,058)	118,895
Comprehensive income (loss)	$ (72,782)	$ 135,643	$ 127,306	$ 280,685

The comprehensive loss for the thirteen weeks ended September 27, 2008 is driven primarily by foreign currency translation adjustments as most foreign currencies in which the Company operates weakened during the period compared to the U.S. dollar. Accumulated other comprehensive income included in stockholders equity totaled $218,694 and $260,752 at September 27, 2008 and December 29, 2007, respectively, and consisted primarily of cumulative foreign currency translation adjustments.

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INGRAM MICRO INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in 000s, except per share data)
(Unaudited)

Note 6 Fair Value Measurements

Effective December 30, 2007, the Company adopted the provisions of Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. In February 2008, the Financial Accounting Standards Board issued Staff Position Nos. 157-1 and 157-2, which partially deferred the effective date of FAS 157 for one year for certain nonfinancial assets and liabilities and removed certain leasing transactions from its scope. In October 2008, the Financial Accounting Standards Board issued Staff Position No. 157-3 (FSP 157-3), which clarifies the application of FAS 157 and demonstrates how the fair value of a financial asset is determined when the market for that financial asset is inactive. FSP 157-3 is effective upon issuance. The implementation of this standard did not have any impact on the Company s consolidated financial positions, results of operations or cash flows.

FAS 157 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories: Level 1 quoted market prices in active markets for identical assets and liabilities; Level 2 observable market-based inputs or unobservable inputs that are corroborated by market data and Level 3 unobservable inputs that are not corroborated by market data.

At September 27, 2008, the Company s assets and liabilities measured at fair value on a recurring basis included cash equivalents and other marketable securities totaling $623,306 determined based on Level 1 criteria, as defined above, and a net derivative liability of $3,861 determined based on Level 2 criteria. The change in the fair value of derivative instruments for the thirteen weeks ended September 27, 2008 was a gain of $9,004, which is essentially offset by the change in fair value of the underlying hedged assets or liabilities. The change in the fair value of marketable securities was not material during the period.

Note 7 Goodwill and Acquisitions

The changes in the carrying amount of goodwill for the thirty-nine weeks ended September 27, 2008 and September 29, 2007 are as follows:

	North America	EMEA	Asia-Pacific	Latin America	Total
Balance at December 29, 2007	$ 235,493	$ 15,759	$ 482,229	$	$ 733,481
Acquisitions	6,873	94	1,584		8,551
Foreign currency translation	(47)	(80)	2,919		2,792
Balance at September 27, 2008	$ 242,319	$ 15,773	$ 486,732	$	$ 744,824
Balance at December 30, 2006	$ 156,732	$ 14,168	$ 472,814	$	$ 643,714
Acquisitions	74,786		(209)		74,577
Foreign currency translation	139	1,066	13,541		14,746
Balance at September 29, 2007	$ 231,657	$ 15,234	$ 486,146	$	$ 733,037

In June 2008, the Company acquired the distribution business of the Cantechs Group, one of China s largest providers of auto-identification and data capture/point-of-sale (DC/POS) products and services. The acquisition expanded the Company s value-added distribution in the Asian enterprise mobility market. The distribution business of

Cantechs Group was acquired for a cash price of $1,584, including related acquisition costs. The entire purchase price has been preliminarily allocated to goodwill as no operating assets or liabilities were acquired and the Company is currently evaluating the valuation of the other identifiable intangible assets acquired as part of this acquisition.

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(Unaudited)

In January 2008, the Company acquired the assets of privately held Paradigm Distribution Ltd. (Paradigm), a key distributor in the United Kingdom of mobile data, automatic identification and DC/POS technologies to solution providers and system integrators. The acquisition expanded the Company s value-added distribution of mobile data and DC/POS solutions in EMEA. Paradigm was acquired for a purchase price of $2,665, which has been preliminarily allocated to the assets acquired and liabilities assumed based on their estimated fair values on the transaction date, resulting in goodwill of $94 and intangible assets of $1,968, primarily related to vendor and customer relationships with estimated useful lives of 10 years.

In June 2007, the Company acquired certain assets and liabilities of DBL Distributing Inc. (DBL). DBL was acquired for $102,174, which includes an initial cash price of $96,502, including related acquisition costs, plus an estimated working capital adjustment of $5,672, which is subject to a final true-up to be agreed to by the two parties. The purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values on the transaction date, resulting in goodwill of $59,720, trade names of $11,600 with estimated useful lives of 20 years and other intangible assets of $12,800 primarily related to customer relationships and non-compete agreements with estimated useful lives of up to eight years. In the first half of 2008, the Company made adjustments to the purchase price allocation above, primarily resulting from an increase in the balance of certain preacquisition liabilities, by $6,930. These adjustments yielded an increase of goodwill for the same amount. Under the terms of the purchase agreement, the parties agreed that $10,000 of the purchase price would be held in an escrow account to cover indemnification of any claims arising from pre-acquisition contingent liabilities until the later of June 2008 or the final resolution of any such claims. In March 2008, the Company served a notice of claim with the seller for indemnification for certain pre-acquisition liabilities in accordance with the terms of the purchase agreement, and also notified the seller and the escrow agent, Union Bank of California, that it was extending the term of the escrow for an additional year. In June 2008, at the request of the seller, the escrow funds were disbursed to the seller by the escrow agent without any notice to the Company. The $10,000 is now on deposit with another financial institution and the Company has obtained a preliminary injunction preventing any disposition of the funds from that financial institution without order of the Court.

In March 2007, the Company acquired all the outstanding shares of VPN Dynamics and a minority interest of 49% in a related company, Securematics. The Company s interests in these related entities were acquired for an initial aggregate purchase price of $24,991, including related acquisition costs. The Company has an option to acquire the remaining 51% interest held by the shareholders of Securematics at a purchase price of $1,000, which has been recorded in accrued expenses in the Company s consolidated balance sheet at September 27, 2008 and December 29, 2007. The holders of the remaining 51% interests in Securematics also have the option to require the Company to purchase their interests for the same amount, after two years from the transaction date. The results of Securematics have been consolidated in accordance with Financial Accounting Standards Board Interpretation No. 46 Consolidation of Variable Interest Entities.

The purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values on the transaction date, resulting in goodwill of $18,891, trade names of $3,800 with estimated useful lives of 20 years, other intangible assets of $4,000, primarily related to customer relationships and non-compete agreements with estimated useful lives of up to five years, and a deferred tax liability of $3,178 related to the intangible assets, none of which are deductible for tax purposes. In accordance with the purchase agreement, in the third quarter of 2007, the Company paid the sellers $1,800 in contingent consideration for the achievement of a milestone, which was an adjustment to the initial purchase price above. In the first quarter of 2008, the Company made an adjustment to the purchase price allocation associated with these acquisitions to reflect a reduction in tax-related liabilities at the date of purchase totaling $57 and a decrease of goodwill for the same amount. In connection with the Company s acquisition of VPN Dynamics and Securematics, the parties agreed that $4,100 of the purchase price shall be held in

INGRAM MICRO INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in 000s, except per share data)
(Unaudited)

an escrow account to cover any contingent liabilities under the purchase agreement. The funds held in escrow are scheduled to be released to the sellers in three installments over a period of two years following the transaction date, if no claims are made. The purchase agreement also provides for the Company to pay the sellers additional contingent consideration of up to $3,200, if certain performance levels are achieved, over the two-year period following the date of acquisition. Such payment, if any, will be recorded as additional adjustments to the initial purchase price.

During the thirty-nine weeks ended September 29, 2007, the Company concluded favorable resolutions of certain taxes associated with a previous acquisition in Asia-Pacific. As a result, the Company made an adjustment to the purchase price allocation associated with this acquisition to reflect reductions in tax-related liabilities that existed at the dates of purchase totaling $209, and a decrease of goodwill for the same amount in the respective periods.

The aggregate gross carrying amounts of finite-lived identifiable intangible assets of $152,880 and $151,069 at September 27, 2008 and December 29, 2007, respectively, are amortized over their estimated lives ranging from 3 to 20 years. The net carrying amount was $93,675 and $104,125 at September 27, 2008 and December 29, 2007, respectively. Amortization expense was $3,911 and $4,034 for the thirteen weeks ended September 27, 2008 and September 29, 2007, respectively, and $11,976 and $10,178 for the thirty-nine weeks ended September 27, 2008 and September 29, 2007, respectively. The net identifiable intangible assets are recorded in other assets in the accompanying consolidated balance sheet.

All acquisitions for the periods presented above were not material, individually or in aggregate, to the Company as a whole and therefore, pro-forma financial information has not been presented.

Note 8 Reorganization and Expense-Reduction Program Costs

During the second and third quarters of 2008, the Company announced cost-reduction programs, resulting in the rationalization and re-engineering of certain roles and processes primarily at the regional headquarters in EMEA and targeted reductions of primarily administrative and back-office positions in North America. Total costs of the actions incurred in EMEA for the thirteen weeks ended September 27, 2008 were $3,107 ($9,937 for the thirty-nine weeks ended September 27, 2008), comprised of $2,657 of reorganization costs ($8,393 for the thirty-nine weeks ended September 27, 2008), primarily related to employee termination benefits for workforce reductions of approximately 105 employees (185 employees for the thirty-nine weeks ended September 27, 2008), as well as $450 of other costs ($1,544 for the thirty-nine weeks ended September 27, 2008) charged to selling, general and administrative expenses, primarily comprised of consulting, legal and other expenses associated with implementing the reduction in workforce. In North America, the total costs of the actions for the thirteen weeks ended September 27, 2008 were $680 ($2,087 for the thirty-nine weeks ended September 27, 2008), all of which were reorganization costs, primarily related to employee termination benefits for workforce reductions of approximately 105 employees of $380 ($1,787 for approximately 215 employees for the thirty-nine weeks ended September 27, 2008) and $300 of other costs related to contract terminations for equipment leases. During the third quarter of 2008, the Company also announced cost-reduction programs related to its Asia-Pacific operations, incurring reorganization costs of $277 for the thirteen and thirty-nine weeks ended September 27, 2008, primarily related to employee termination benefits for workforce reductions in China of approximately 45 employees. Remaining costs associated with the Company s action plans announced to date are estimated to be approximately $3,000, which is expected to be incurred in the fourth quarter of 2008.

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INGRAM MICRO INC.
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(Dollars in 000s, except per share data)
(Unaudited)

The reorganization costs and related payment activities for the thirty-nine weeks ended September 27, 2008 and the remaining liability related to these detailed actions are summarized as follows:

	Reorganization Costs	Amounts Paid and Charged Against the Liability	Adjustments	Remaining Liability at September 27, 2008
Employee termination benefits	$ 10,457	$ (4,982)	$	$ 5,475
Other costs	300			300
	$ 10,757	$ (4,982)	$	$ 5,775

The Company expects the remaining liabilities for the employee termination benefits and other costs to both be substantially utilized before the end of 2008.

Prior to 2006, the Company had launched an outsourcing and optimization plan to improve operating efficiencies within its North American region. The plan included an outsourcing arrangement that moved transaction-oriented service and support functions including certain North America positions in finance and shared services, customer service, vendor management and certain U.S. positions in technical support and inside sales (excluding field sales and management positions) to a leading global business process outsource provider. As part of the plan, the Company also had restructured and consolidated other job functions within the North American region. The Company had also implemented a detailed plan to integrate with the Company the operations of Techpac Holdings Limited, which was acquired in November 2004.

Also, prior to 2006, the Company implemented other actions designed to improve operating income through reductions of selling, general and administrative expenses and enhancements in gross margins. Key components of those initiatives included workforce reductions and facility consolidations worldwide as well as outsourcing of certain IT infrastructure functions. Facility consolidations primarily included consolidation, closing or downsizing of office facilities, distribution centers, returns processing centers and configuration centers throughout North America, consolidation and/or exit of warehouse and office facilities in EMEA, Latin America and Asia-Pacific, and other costs primarily comprised of contract termination expenses associated with outsourcing certain IT infrastructure functions as well as other costs associated with the reorganization activities.

The above reorganization actions are complete; however, future cash outlays are required primarily for future lease payments related to exited facilities. The remaining liabilities and payment activities in 2008 are summarized in the table below:

	Outstanding Liability at December 29, 2007	Amounts Paid and Charged Against the Liability	Adjustments	Remaining Liability at September 27, 2008
Facility costs	$ 3,912	$ (587)	$ (530)	$ 2,795

The Company expects the remaining liability for these facility costs to be fully utilized by the end of 2015.

The credit adjustment to reorganization costs of $530 for the thirty-nine weeks ended September 27, 2008 primarily represents lower than expected costs to settle lease obligations related to previous actions in North America. The total credit adjustment to reorganization costs of $1,091 for the thirty-nine weeks ended and $176 for the thirteen weeks ended September 29, 2007 consisted of $1,066 in North America ($176 in the thirteen weeks ended September 29, 2007) for lower than expected costs associated with employee termination benefits and facility consolidations related to actions taken in prior years and $25 in EMEA for lower than expected costs associated with employee termination benefits related to actions taken in prior years.

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Note 9 Long-Term Debt

The Company s debt consists of the following:

	September 27, 2008	December 29, 2007
North American revolving trade accounts receivable-backed financing facilities	$ 109,400	$ 387,500
Senior unsecured term loan facility	250,000	
Revolving unsecured credit facilities and other debt	98,199	135,616
	457,599	523,116
Current maturities of long-term debt	(98,199)	(135,616)
	$ 359,400	$ 387,500

In July 2008, the Company entered into a $250,000 senior unsecured term loan facility in North America with a bank syndicate. The interest rate on this facility is based on one-month LIBOR, plus a variable margin that is based on the Company s debt ratings and leverage ratio. Interest is payable monthly. Under the terms of the agreement, the Company is also required to pay a minimum of $3,125 of principal on the loan on a quarterly basis beginning in November 2009 and a balloon payment of $215,625 at the end of the loan term in August 2012. The agreement also contains certain negative covenants, including restrictions on funded debt and interest coverage, as well as customary representations and warranties, affirmative covenants and events of default. The proceeds of the term loan were used for general corporate purposes, including refinancing existing indebtedness and funding working capital. Subject to certain conditions, the Company may increase the amount of the facility up to $350,000.

In connection with the senior unsecured term loan facility above, the Company entered into an interest rate swap agreement with a financial institution for $200,000 of the term loan principal amount, the effect of which was to swap the LIBOR portion of the floating-rate obligation for a fixed-rate obligation. The fixed rate including the variable margin is approximately 5%. The notional amount on the interest rate swap agreement reduces by $3,125 quarterly beginning November 2009, consistent with the amortization schedule of the senior unsecured term loan discussed above. The Company accounts for the interest rate swap agreement as a cash flow hedge.

The Company has a multi-currency revolving trade accounts receivable-backed financing facility in Asia-Pacific, which provides for up to 250 million Australian dollars, or approximately $208,000, at September 27, 2008 of borrowing capacity. Actual capacity depends upon the level of trade accounts receivable eligible to be sold into the program and certain covenant compliance requirements. The interest rate is dependent upon the currency in which the drawing is made and is related to the local short-term bank indicator rate for such currency. The Company had no borrowings under this Asia-Pacific multi-currency revolving accounts receivable-backed financing facility at September 27, 2008 and December 29, 2007. The maturity date of this facility has been extended to December 2008.

In October 2008, the Company terminated its 100 million Australian dollar senior unsecured credit facility with a bank syndicate, which was due to expire in December 2008. At September 27, 2008 and December 29, 2007, the Company had borrowings of $0 and $934, respectively, under this senior unsecured credit facility. This credit facility was also used to support letters of credit. At September 27, 2008 and December 29, 2007, no letters of credit were issued.

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Note 10 Income Tax

At September 27, 2008, the Company had gross unrecognized tax benefits of $22,090 compared to $20,168 at December 29, 2007, or an increase of $1,922 during the thirty-nine weeks ended September 27, 2008. The increase is primarily related to exposure on transfer pricing. Substantially all of the gross unrecognized tax benefits, if recognized, would impact the Company s effective tax rate in the period of recognition. The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. In addition to gross unrecognized tax benefits identified above, the interest and penalties recorded by the Company in the third quarters of 2008 and 2007, was a reversal of $170 and an increase of $448, respectively. Interest and penalties recorded in the first nine months of 2008 and 2007 totaled $4,735 and $3,149, respectively.

The Company conducts business globally and, as a result, the Company and/or one or more of its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. During 2007, the U.S. Internal Revenue Service (IRS) concluded its audit of the Company s federal income tax return for the tax years 2001 through 2003. Their examination of tax years 2004 and 2005 is currently in progress. At this time, the IRS has not proposed any significant adjustment to the tax positions claimed on these tax returns that are not currently reflected in the Company s income tax reserve. In addition, a number of state and foreign examinations are also currently ongoing. The Company is engaged in continuous discussions and negotiations with taxing authorities regarding tax matters in the various jurisdictions and the Company believes it is reasonably possible that certain federal, state and foreign tax issues may effectively settle within the next 12 months including issues related to transfer pricing and hedge gains. Accordingly, the Company believes it is reasonably possible that the existing unrecognized tax benefits may be reduced by a range of $8,000 to $10,000 within the next 12 months. However, the Company can make no assurances that such unrecognized tax benefits will be reduced within the next 12 months.

Note 11 Segment Information

The Company operates predominantly in a single industry segment as a distributor of IT products and solutions. The Company s operating segments are based on geographic location, and the measure of segment profit is income from operations. The Company does not allocate stock-based compensation (see Note 4 to consolidated financial statements) to its operating units; therefore, the Company is reporting this as a separate amount from its geographic segments.

Geographic areas in which the Company operates currently include North America (United States and Canada), EMEA (Austria, Belgium, Denmark, Finland, France, Germany, Hungary, Italy, The Netherlands, Norway, South Africa, Spain, Sweden, Switzerland, and the United Kingdom), Asia-Pacific (Australia, The People s Republic of China including Hong Kong, India, Malaysia, New Zealand, Singapore, Sri Lanka, and Thailand), and Latin America (Argentina, Brazil, Chile, Mexico, and the Company s Latin American export operations in Miami).

Financial information by geographic segment is as follows:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Net sales:				
North America	$ 3,586,467	$ 3,504,591	$ 10,395,631	$ 10,089,526
EMEA	2,567,126	2,864,312	8,588,704	8,688,475
Asia-Pacific	1,699,842	1,857,303	5,417,415	5,190,594
Latin America	430,268	381,671	1,275,885	1,071,057

Total	$ 8,283,703	$ 8,607,877	$ 25,677,635	$ 25,039,652

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	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Income (loss) from operations:				
North America	$ 45,525	$ 55,382	$ 130,495	$ 150,941
EMEA	(4,689)	28,990	37,759	86,868
Asia-Pacific	25,346	30,649	90,586	81,379
Latin America	6,607	4,371	21,662	(20,493)
Stock-based compensation expense	(331)	(8,415)	(15,529)	(28,312)
Total	$ 72,458	$ 110,977	$ 264,973	$ 270,383
Capital expenditures:				
North America	$ 10,334	$ 7,466	$ 29,424	$ 25,554
EMEA	7,269	1,544	11,454	4,189
Asia-Pacific	547	1,558	3,062	3,783
Latin America	224	583	452	1,001
Total	$ 18,374	$ 11,151	$ 44,392	$ 34,527
Depreciation and amortization:				
North America	$ 9,417	$ 8,551	$ 27,561	$ 24,380
EMEA	4,175	3,784	12,708	11,264
Asia-Pacific	3,346	3,068	10,505	9,410
Latin America	507	574	1,565	1,708
Total	$ 17,445	$ 15,977	$ 52,339	$ 46,762

	As of	
	September 27, 2008	December 29, 2007
Identifiable assets:		
North America	$ 4,761,871	$ 4,867,383
EMEA	2,273,859	2,691,046
Asia-Pacific	674,348	947,873
Latin America	410,374	468,699

Total	$ 8,120,452	$ 8,975,001

Included in the income (loss) from operations for the thirteen and thirty-nine weeks ended September 27, 2008 are the reorganization and cost-reduction actions totaling $4,064 ($680 in North America, $3,107 in EMEA and $277 in Asia-Pacific) and $11,771 ($1,557 in North America, $9,937 in EMEA and $277 in Asia-Pacific), respectively, as discussed in Note 8. As discussed in Note 4, the lower stock-based compensation expense in the 2008 periods is a result of lower estimated achievement and payout under the Company s long-term incentive compensation plans which are payable in performance-based restricted stock units.

The income from operations recorded in North America for the thirty-nine weeks ended September 29, 2007 included the $15,000 charge for estimated losses related to the SEC matter discussed in Note 12. The loss from operations in Latin America included a commercial tax charge of $33,754 for the thirty-nine weeks ended September 29, 2007, also discussed in Note 12.

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Note 12 Commitments and Contingencies

As is customary in the IT distribution industry, the Company has arrangements with certain finance companies that provide inventory-financing facilities for its customers. In conjunction with certain of these arrangements, the Company has agreements with the finance companies that would require it to repurchase certain inventory, which might be repossessed from the customers by the finance companies. Due to various reasons, including among other items, the lack of information regarding the amount of saleable inventory purchased from the Company still on hand with the customer at any point in time, the Company s repurchase obligations relating to inventory cannot be reasonably estimated. Repurchases of inventory by the Company under these arrangements have been insignificant to date.

In 2003, the Company s Brazilian subsidiary was assessed for commercial taxes on its purchases of imported software for the period January to September 2002. The principal amount of the tax assessed for this period was 12.7 million Brazilian reais. Prior to February 28, 2007, and after consultation with counsel, it had been the Company s opinion that it had valid defenses to the payment of these taxes and it was not probable that any amounts would be due for the 2002 assessed period, as well as any subsequent periods. Accordingly, no reserve had been established previously for such potential losses. However, on February 28, 2007 changes to the Brazilian tax law were enacted. As a result of these changes, and after further consultation with counsel, it is now the Company s opinion that it has a probable risk of loss and may be required to pay all or some of these taxes. Accordingly, in the first quarter of 2007, the Company recorded a charge to cost of sales of $33,754, consisting of $6,077 for commercial taxes assessed for the period January 2002 to September 2002, and $27,677 for such taxes that could be assessed for the period October 2002 to December 2005. The subject legislation provides that such taxes are not assessable on software imports after January 1, 2006. The sums expressed are based on an exchange rate of 2.092 Brazilian reais to the U.S. dollar, which was applicable when the charge was recorded. In the fourth quarter of 2007, the Company released a portion of the commercial tax reserve recorded in the first quarter of 2007 amounting to $3,620 (6.5 million Brazilian reais at a December 2007 exchange rate of 1.792 Brazilian reais to the U.S. dollar). The partial reserve release was related to the unassessed period from October through December 2002, for which it is the Company s opinion that the statute of limitations for an assessment from Brazilian tax authorities had expired.

While the tax authorities may seek to impose interest and penalties in addition to the tax as discussed above, the Company continues to believe that it has valid defenses to the assessment of interest and penalties, which as of September 27, 2008 potentially amount to approximately $23,900 and $26,200, respectively, based on the exchange rate prevailing on that date of 1.856 Brazilian reais to the U.S. dollar. Therefore, the Company currently does not anticipate establishing an additional reserve for interest and penalties. The Company will continue to vigorously pursue administrative and judicial action to challenge the current, and any subsequent assessments. However, the Company can make no assurances that it will ultimately be successful in defending any such assessments, if made.

In December 2007, the Sao Paulo Municipal Tax Authorities assessed the Company s Brazilian subsidiary a commercial service tax based upon its sales and licensing of software. The assessment covers the years 2002 through 2006 and totaled 57.2 million Brazilian reais ($30,800 based upon a September 27, 2008 exchange rate of 1.856 Brazilian reais to the U.S. dollar). The assessment included taxes claimed to be due as well as penalties for the years in question. The authorities could make adjustments to the initial assessment including assessments for the period after 2006, as well as additional penalties and interest, which may be material. It is management s opinion, after consulting with counsel, that the Company s subsidiary has valid defenses against the assessment of these taxes and penalties, or any subsequent adjustments or additional assessments related to this matter. Although the Company intends to vigorously pursue administrative and judicial action to challenge the current assessment and any subsequent adjustments or assessments, the Company can make no assurances that it will ultimately be successful in its defense of this matter.

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In May 2007, the Company received a Wells Notice from the SEC, which indicated that the SEC staff intends to recommend an administrative proceeding against the Company seeking disgorgement and prejudgment interest, though no dollar amounts were specified in the notice. The staff contends that the Company failed to maintain adequate books and records relating to certain of its transactions with McAfee Inc. (formerly Network Associates, Inc.), and was a cause of McAfee s own securities-laws violations relating to the filing of reports and maintenance of books and records. During the second quarter of 2007, the Company recorded a reserve of $15,000 for the current best estimate of the probable loss associated with this matter based on discussions with the SEC staff concerning the issues raised in the Wells Notice. No resolution with the SEC has been reached at this point, however, and there can be no assurance that such discussions will result in a resolution of these issues. When the matter is resolved, the final disposition and the related cash payment may exceed the current accrual for the best estimate of probable loss. At this time, it is also not possible to accurately predict the timing of a resolution. The Company has responded to the Wells Notice and continues to cooperate fully with the SEC on this matter, which was first disclosed during the third quarter of 2004.

There are various other claims, lawsuits and pending actions against the Company incidental to its operations. It is the opinion of management that the ultimate resolution of these matters will not have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

Note 13 New Accounting Standards

In March 2008, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (FAS 161). FAS 161 requires enhanced disclosures about an entity s derivative and hedging activities. Under FAS 161, entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. FAS 161 will be effective for the Company beginning January 4, 2009 (the first day of fiscal 2009). Early adoption is encouraged. FAS 161 also encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company is currently in the process of evaluating what impact FAS 161 may have on the disclosures in its consolidated financial statements.

In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141(R), Business Combinations (FAS 141R). FAS 141R supercedes Statement of Financial Accounting Standards No. 141, Business Combinations, and establishes principles and requirements as to how an acquirer in a business combination recognizes and measures in its financial statements: the identifiable assets acquired, the liabilities assumed and any controlling interest; goodwill acquired in the business combination; or a gain from a bargain purchase. FAS 141R requires the acquirer to record contingent consideration at the estimated fair value at the time of purchase and establishes principles for treating subsequent changes in such estimates which could affect earnings in those periods. This statement also calls for additional disclosure regarding the nature and financial effects of the business combination. FAS 141R is to be applied prospectively by the Company to business combinations beginning January 4, 2009 (the first day of fiscal 2009). Early adoption is prohibited. The Company will assess the impact of FAS 141R if and when a future acquisition occurs.

In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (FAS 160). FAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. FAS 160 also clarifies that changes in a parent s ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest and requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. The gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. Moreover, FAS

160 includes expanded disclosure requirements regarding the interests of

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the parent and its noncontrolling interest. FAS 160 is effective for the Company beginning January 4, 2009 (the first day of fiscal 2009). Early adoption is prohibited, but upon adoption FAS 160 requires the retroactive presentation and disclosure related to existing minority interests. The Company does not expect FAS 160 to have a material impact on its consolidated financial position, results of operations or cash flows upon adoption.

In February 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Liabilities (FAS 159). FAS 159 permits companies to make an election to carry certain eligible financial assets and liabilities at fair value, even if fair value measurement has not historically been required for such assets and liabilities under U.S. GAAP. FAS 159 became effective for the Company beginning December 30, 2007 (the first day of fiscal 2008). The Company did not elect the fair value option to measure certain financial instruments. The adoption of the provisions of FAS 159 did not have a material impact on the Company s consolidated financial position, results of operations or cash flows.

In November 2007, the Emerging Issues Task Force released Issue No. 07-01 Accounting for Collaborative Arrangements (EITF 07-01). EITF 07-01 requires collaborators to present the results of activities for which they act as the principal on a gross basis and report any payments received from (made to) other collaborators based on other applicable GAAP or, in the absence of other applicable GAAP, based on analogy to authoritative accounting literature or a reasonable, rational, and consistently applied accounting policy election. EITF 07-01 also clarified the determination of whether transactions within a collaborative arrangement are part of a vendor-customer (or analogous) relationship that are subject to EITF Issue No. 01-9 Accounting for Consideration Given by a Vendor to a Customer. EITF 07-01 is effective for the Company beginning January 4, 2009 (the first day of fiscal 2009). The Company is currently in the process of evaluating what impact EITF No. 07-01 may have on its consolidated financial position, results of operations or cash flows.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion includes forward-looking statements, including but not limited to, management s expectations for: economic conditions; capital resources; cost reduction actions; revenues, operating income, margins, and expenses; integration costs; operating efficiencies; profitability; market share; rates of return; capital expenditures; acquisitions; contingencies; operating models; and exchange rate fluctuations. In evaluating our business, readers should carefully consider the important factors included in Item 1A Risk Factors under Part II Other Information in this Quarterly Report. We disclaim any duty to update any forward-looking statements.

Overview of Our Business

We are the largest distributor of information technology, or IT, products and supply chain solutions worldwide based on revenues. We offer a broad range of IT products and supply chain solutions and help generate demand and create efficiencies for our customers and suppliers around the world. Our results of operations have been negatively affected by the difficult conditions in the economy in general. The IT distribution industry in which we operate is characterized by narrow gross profit as a percentage of net sales, or gross margin, and narrow income from operations as a percentage of net sales, or operating margin. Historically, our margins have also been impacted by pressures from price competition and declining average selling prices, as well as changes in vendor terms and conditions, including, but not limited to, variations in vendor rebates and incentives, our ability to return inventory to vendors, and time periods qualifying for price protection. We expect these competitive pricing pressures and restrictive vendor terms and conditions to continue in the foreseeable future and may be heightened in the relative near term given the severe economic weakness that currently exists in most of the markets in which we operate. To mitigate these factors, we have implemented changes to and continue to refine our pricing strategies, inventory management processes and vendor program processes. In addition, we continuously monitor and change, as appropriate, certain terms, conditions and credit offered to our customers to reflect those being imposed by our vendors and/or to recover our costs of doing business, including recovery of freight costs. We have also strived to improve our profitability through our diversification of product offerings, including our entry into adjacent product segments such as consumer electronics, automatic identification/data capture and point-of-sale, or DC/POS, and fee-for-service logistics offerings. Our business also requires significant levels of working capital primarily to finance accounts receivable and inventory. We have historically relied on, and continue to rely heavily on trade credit from vendors, available cash and debt for our working capital needs.

We have complemented our internal growth initiatives with strategic business acquisitions, including our recent acquisitions of the distribution business of the Cantechs Group in Asia-Pacific, Paradigm Distribution Ltd. and Symtech Nordic AS in EMEA, and Nimax in North America, each of which expanded our value-added distribution of mobile data and DC/POS solutions; AVAD, the leading distributor for solution providers and custom installers serving the home automation and entertainment market in the U.S.; DBL, a leading distributor of consumer electronics accessories in the U.S.; and VPN Dynamics and Securematics, which expanded our networking product and services offerings in the U.S.

Results of Operations

The following tables set forth our net sales by geographic region (excluding intercompany sales) and the percentage of total net sales represented thereby, as well as operating income (loss) and operating margin (loss) by geographic region for each of the thirteen and thirty-nine week periods indicated (in millions).

	Thirteen Weeks Ended				Thirty-nine Weeks Ended			
	September 27, 2008		September 29, 2007		September 27, 2008		September 29, 2007	
Net sales by geographic region:								
North America	$3,587	43.3%	$3,505	40.7%	$10,396	40.5%	$10,090	40.3%
EMEA	2,567	31.0	2,864	33.3	8,589	33.4	8,688	34.7

Asia-Pacific	1,700	20.5	1,857	21.6	5,417	21.1	5,191	20.7
Latin America	430	5.2	382	4.4	1,276	5.0	1,071	4.3
Total	$8,284	100.0%	$8,608	100.0%	$25,678	100.0%	$25,040	100.0%

	Thirteen Weeks Ended				Thirty-nine Weeks Ended			
	September 27, 2008		September 29, 2007		September 27, 2008		September 29, 2007	
Operating income (loss) and operating margin (loss) by geographic region:								
North America	$ 45.5	1.3%	$ 55.4	1.6%	$ 130.5	1.3%	$ 150.9	1.5%
EMEA	(4.7)	(0.2)	29.0	1.0	37.7	0.4	86.9	1.0
Asia-Pacific	25.4	1.5	30.6	1.7	90.6	1.7	81.4	1.6
Latin America	6.6	1.5	4.4	1.1	21.7	1.7	(20.5)	(1.9)
Stock-based compensation expense	(0.3)		(8.4)		(15.5)		(28.3)	
Total	$ 72.5	0.9%	$ 111.0	1.3%	$ 265.0	1.0%	$ 270.4	1.1%

Our income (loss) from operations for the thirteen and thirty-nine weeks ended September 27, 2008 include $0.7 million and $1.6 million of net charges, respectively, in North America; $3.1 million and $9.9 million of charges, respectively, in EMEA; and $0.3 million of charges for both periods in Asia-Pacific, related to our reorganization and expense reduction programs as discussed in Note 8 to our consolidated financial statements. Our income from operations in North America for the thirty-nine weeks ended September 29, 2007 includes the $15.0 million charge related to the SEC matter as discussed in Note 12 to our consolidated financial statements. In addition, our loss from operations in Latin America for the thirty-nine weeks ended September 29, 2007 includes the commercial tax charge of $33.8 million in Brazil, also discussed in Note 12.

We sell products purchased from many vendors but generated approximately 24% for the thirty-nine weeks ended September 27, 2008 and September 29, 2007 from products purchased from Hewlett-Packard Company. There were no other vendors that represented 10% or more of our net sales in the periods presented.

The following table sets forth certain items from our consolidated statement of income as a percentage of net sales, for each of the periods indicated.

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	94.5	94.5	94.5	94.7
Gross profit	5.5	5.5	5.5	5.3
Operating expenses:				
Selling, general and administrative	4.5	4.2	4.4	4.2
Reorganization costs (credits)	0.1	(0.0)	0.1	(0.0)
Income from operations	0.9	1.3	1.0	1.1
Other expense, net	0.1	0.2	0.1	0.2
Income before income taxes	0.8	1.1	0.9	0.9
Provision for income taxes	0.2	0.3	0.2	0.3

Net income	0.6%	0.8%	0.7%	0.6%

Results of Operations for the Thirteen Weeks Ended September 27, 2008 Compared to Thirteen Weeks Ended September 29, 2007

Our consolidated net sales decreased 3.8% to $8.28 billion for the thirteen weeks ended September 27, 2008, or third quarter of 2008, from $8.61 billion for the thirteen weeks ended September 29, 2007, or third quarter of 2007. Our proactive steps to walk away from unprofitable business and recover freight costs, combined with softening demand in our North American, EMEA and Asia-Pacific regions, principally resulting from the severe economic downturn, had a negative impact on worldwide sales growth in the third quarter of 2008. These negative trends were partially offset by the translation impact of the strengthening foreign currencies versus the U.S. dollar when compared to the exchange rates in the prior year period, which contributed approximately three percentage-points of the worldwide growth. We continued to see solid growth in our Latin American region; however, such growth may be tempered if the economic downturn we currently experience in the larger regions expands into the Latin American market.

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Net sales from our North American operations increased 2.3% to $3.59 billion in the third quarter of 2008 from $3.50 billion in the third quarter of 2007, primarily driven by modest growth in the classic distribution business, as well as continued strength in our fee-for-service and DC/POS units. Net sales from our EMEA operations decreased 10.4% to $2.57 billion in the third quarter of 2008 from $2.86 billion in the third quarter of 2007. The soft demand for technology products, deliberate actions to exit or turn away unprofitable business, and market reaction to our freight recovery efforts had a negative impact on sales, partially offset by the appreciation of European currencies compared to the U.S. dollar which contributed approximately seven percentage-points positive impact compared to the prior year. Net sales from our Asia-Pacific operations decreased 8.5% to $1.70 billion in the third quarter of 2008 from $1.86 billion in the third quarter of 2007. The sales decline was attributable to softer demand in the region s three largest countries combined with proactive efforts to exit or turn away unprofitable business in certain markets. Net sales from our Latin American operations increased 12.7% to $430 million in the third quarter of 2008 from $382 million in the third quarter of 2007, primarily reflecting continued strong demand for IT products and services throughout the region in the quarter. However, the impacts of the weakening global economy experienced in our larger regions could eventually spread to Latin America, as well as may intensify in other regions, thereby negatively impacting demand for IT products and our revenue.

Gross margin remained relatively stable at approximately 5.5% for the third quarters of 2008 and 2007. The relative stability of our gross margin in the increasingly competitive environment is due to balanced pricing discipline, a greater focus on improving overall profitability and continued growth in our higher-margin fee-for-services business, partially offset by the reduction in volume-based rebates. We continuously evaluate and modify our pricing policies and certain terms, conditions and credit offered to our customers to reflect those being imposed by our vendors and general market conditions. In light of rising fuel costs, we introduced incremental freight charges to a large portion of our account base. This initiative commenced during the third quarter of 2008 and was largely implemented worldwide by the end of the quarter. We believe this initiative may have negatively impacted our sales volumes in EMEA during the third quarter and may negatively impact our revenue in other regions. Such sales volume decrease could have a negative impact on our volume-based rebates. In this regard, as we continue to evaluate our existing pricing policies and make modifications or future changes, if any, we may experience moderated or continued negative sales growth in the near term. In addition, increased competition and any further retractions or softness in economies throughout the world may hinder our ability to maintain and/or improve gross margins from the levels realized in recent quarters.

Total SG&A expenses increased 3.5% to $376.8 million in the third quarter of 2008 from $364.1 million in the third quarter of 2007, and increased to 4.5% of net sales in the third quarter of 2008 from 4.2% in the third quarter of 2007. The period-over-period increase was primarily attributable to investments in strategic initiatives and system enhancements and additional labor costs related to our growing fee-for-service business, which also yields a higher gross margin as discussed above. The translation impact of foreign currencies also contributed to the growth in SG&A dollars by approximately $9 million, or approximately three percentage-points. These factors were partially offset by the reduction of stock-based compensation of approximately $8.1 million. The period-over-period decrease in stock-based compensation was the result of lower estimated achievement and payout under our long-term incentive compensation plans which are payable in performance-based restricted stock units. In addition, our expense-reduction efforts are lagging behind the pace of the sales decline, particularly in EMEA, which negatively impacted SG&A expenses as a percent of net sales for the quarter.

In the third quarter of 2008, we incurred a charge for reorganization costs of $3.6 million, or approximately 0.1% of sales, which consisted of (a) $3.3 million of employee termination benefits for workforce reductions associated with our targeted reduction of administrative and back-office positions in North America, the restructuring of the regional headquarters in EMEA and workforce reductions in the Asia-Pacific region, and (b) $0.3 million for contract terminations for equipment leases in North America. These actions were part of a cost reduction program that we commenced in the second quarter of 2008. We expect the 2008 actions discussed above will yield approximately $18 million to $24 million of annualized cost savings, substantially all of which should take effect by the first quarter of 2009. We may pursue other business process and/or organizational changes in our business, which may result in additional charges related to consolidation of facilities, restructuring of business functions and workforce reductions in the future; however, any such actions may take time to implement and savings generated may not match the rate of revenue decline in any particular period. In the third quarter of 2007, the credit to reorganization costs of $0.2 million primarily related to actions taken in prior years for which we incurred lower than expected costs associated with restructured facilities in North America.

Operating margin decreased to 0.9% in the third quarter of 2008 from 1.3% in the third quarter of 2007. The decrease was primarily attributable to the decline in sales and the related reduction in volume-based rebates, the more competitive pricing environment, expenses that were not yet aligned with the current sales environment and costs related to strategic initiatives and reorganization efforts. Our North American operating margin decreased to 1.3% in the third quarter of 2008 from 1.6% in the third quarter of 2007. The decrease primarily reflects the softer demand environment, along with more competitive pricing and expenses related to strategic initiatives and reorganization efforts. Our EMEA operating margin was a loss of 0.2% in the third quarter of 2008 compared to a positive operating margin of 1.0% in the third quarter of 2007. The operating loss was primarily attributable to declining sales and the related reduction in volume-based rebates, more competitive pricing, reorganization costs and expenses that are not yet aligned with the current sales environment. Our Asia-Pacific operating margin decreased to 1.5% in the third quarter of 2008 from 1.7% in the third quarter of 2007. Proactive expense reductions, as well as exits of low-margin business, helped the region maintain solid operating margins in a declining sales environment. Our Latin American operating margin increased to 1.5% in the third quarter of 2008 compared to 1.1% in the third quarter of 2007, primarily due to an increase in profitability driven by product mix changes and ongoing cost containment efforts, partially offset by our investments in the start-up of operations in Argentina. We continue to implement process improvements and other changes to improve profitability without sacrificing customer service over the long-term, including the previously discussed imposition of freight charges and reorganization actions initiated since the second quarter of 2008. As a result, operating margins and/or sales may fluctuate significantly from quarter to quarter.

Other expense, net, consisted primarily of interest expense and income, foreign currency exchange gains and losses and other non-operating gains and losses. We incurred net other expense of $12.2 million in the third quarter of 2008 compared t